Accountability in Finance:

The Buck Stops at the Top

Part two of a BlackLine study of investor attitudes to financial data, risk and reporting

The beginning of the current decade has been nothing if not eventful. In the first few months of 2020 alone, escalating global political tensions, the upending of historic trade alliances, and the unknown economic impact of global health crises have added a new dimension to the challenges facing the international business community.

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These new complexities follow several years during which public and shareholder scrutiny of large corporations has increased. In the 10 or so years since the 2008 financial crisis, irresponsible corporate behavior and unnecessary risk-taking have become less and less acceptable—particularly in the eyes of investors, who need oversight of anything that could influence long-term financial performance.

It is no surprise then that investors are analyzing how companies finance their operations in more minute detail than ever before. We surveyed institutional investors all over the world to gauge how confident they were in the financial integrity of their portfolio companies, specifically when it came to financial data, risk and reporting.

We found that many investors are seriously concerned about a lack of control and transparency when it comes to financial data. In fact, most believe companies regularly deploy legal but 'creative' accounting tactics to entice investors. This suggests a general level of skepticism surrounding the outputs coming from the finance department, which will no doubt raise alarm bells for many finance professionals.

So, what can Finance and Accounting do to shore up investor confidence in the numbers?

To better understand why these perceptions exist within the investor community, we decided to delve deeper into investor responses. Working with independent research firm Censuswide, we asked over 760 institutional investors* what made them doubt the accuracy of the financial data at their portfolio companies.

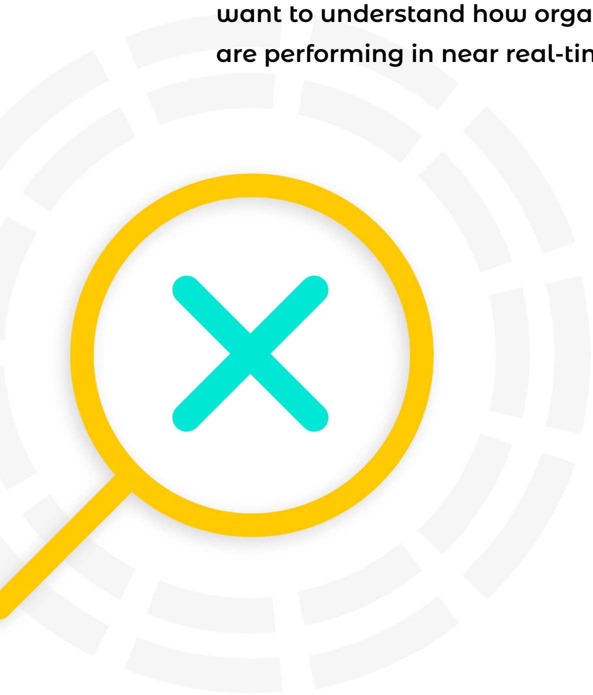
We asked, what action do investors take when errors do occur? And crucially, who do they believe should shoulder the blame?

Here are our results.

A New Age of Investor Due Diligence

When we first surveyed the investor community at the end of 2019, it became clear that existing financial practices were undermining investor confidence in the numbers. The findings, outlined in The Increased Age of Investor Due Diligence: A BlackLine Study of Investor Attitudes to Financial Data, Risk and Reporting, indicate that the majority of investors are not confident that the financial reports provided by their portfolio companies provide a realistic or accurate view of the numbers.

As a result, many investors are now demanding a closer, more granular view of companies' financial data and want to understand how organizations are performing in near real-time.



"Unnecessary risk is understandably a turn-off for the investor community," says BlackLine CEO Therese Tucker. "Not only do investors want to avoid companies with poor internal financial controls, they are increasingly demanding evidence of good financial management before they invest—such as a proven track record of accurate financial reporting. Additionally, the ability to access and analyze financial data in near real-time is a big asset. Ultimately, investors rely on key financial metrics and forecasts to make informed decisions. More than anything, they want to know that the data they are using is accurate, and that there is an appropriate level of accountability when things go wrong."

Therese Tucker, CEO, BlackLine

Past Experience is Fueling Investor Caution

There are a number of factors that make investors wary of accepting financial data at face value. While high profile misreporting and fraud scandals undoubtedly add fuel to the fire, it turns out that many investors have already been burned by a bad experience.

Of those who do not completely trust the financial data of their portfolio companies, almost two thirds (64%) said they knew from experience that the financial data presented by their portfolio companies is not always accurate. This was particularly prevalent in the UK, where 79% suggested that companies in their portfolio had previously presented them with incorrect financial data.

Additionally, over a third (38%) of investors globally said a lack of visibility over how financial data is gathered, checked or analyzed makes them doubt its accuracy. More than half (58%) of those surveyed confirmed they were becoming increasingly concerned by this lack of transparency, suggesting that the current status quo is not sustainable.

“With increased complexity and new sources of unstructured and unverified data cluttering the landscape of available financial data, it is no wonder shareholders are cautious about how much trust they place in this wide ranging and often disparate information. The proliferation of unofficial metrics and unsubstantiated rumors in this age of instant information may also mislead investors about a company’s true health, making visibility over real-time financial data more important than ever. Addressing this issue will not only improve investor confidence, but also drive success around longer-term business goals. Additionally, instead of relying only on backward-looking financial data, organizations can also focus on key performance indicators that are based on and support the achievement of the wider business strategy.”

Tony Klimas, Principal, Global Performance Improvement Finance Leader, EY

Accountability Matters

While evidence of transparency and accuracy in financial reporting helps to reassure investors, understanding the roles and responsibilities of those involved is equally as vital. Essentially, when it comes to increasing investor confidence in financial data, it isn't all down to the numbers. Who signs off on them is also important.

Unsurprisingly, the vast majority of investors admit to being troubled when reporting errors do occur, however responses suggest that accountability goes a long way to assuage investor fears.

Just 2% of investors said they would not be affected if a company misreported its finances, indicating that surprise disclosures or restated financial statements are not welcomed by the majority of investors.

Almost two thirds (63%) said that if a company in their portfolio misreported its finances, they would demand to know who was being held accountable for the errors. Accountability appears to be particularly important for US-based investors, where nearly three quarters (74%) said the same.

Lack of accountability has the potential to damage a company's relationship with its investors. **Half (51%)** of those surveyed globally said they become frustrated when companies cannot communicate who is ultimately responsible for signing off on financial reports.

3 out of 10 (31%) also agreed they are less likely to invest in a company if the roles and responsibilities of the management team are not clear, suggesting that the conduct of those at the top is particularly important to investors.

The Buck Stops at the Top

When we asked investors who they think bears ultimate responsibility for ensuring that financial data and reports are accurate, the answer was unanimous: the buck stops at the top. Investors in every market overwhelmingly agree that the CEO and CFO should be held accountable for any errors in the financial reporting process.

Globally, 79% of investors indicated that the CEO should be held accountable for a company's financial reporting errors, while nearly four in ten (38%) thought the CFO should also be held to account.

In Singapore, investors were even clearer that those at the top were ultimately responsible. Nearly all (99%) said the CEO should be accountable for financial errors, and half (51%) believe the CFO should share this burden.

Although the CEO and CFO were the top answers in every market, in some countries other stakeholders were also perceived as having some level of accountability for financial reporting errors.

In the US, a large minority of investors (43%) also think the audit committee is responsible for ensuring financial reports are correct. However, far fewer respondents in countries such as France (14%) and Singapore (5%) agreed.

"The role of today's CFO is about strategy and predictive analytics as much as the reporting of monthly, quarterly or annual actuals. Investor confidence will come from financial reporting having transparency, accuracy and speed of reporting, as well as demonstrating a strong connection between the financials and the strategy of the business. This journey will lead Finance teams to make greater use of disruptive technologies to accomplish that."

Ralph Canter, Managing Director for Finance Transformation, KPMG LLP

Creating Better Control & Transparency

Being held directly accountable for something that so clearly impacts investor confidence may seem like a daunting prospect. However, in reality, many of the factors that impact investor trust - such as poor financial controls or real-time visibility over the numbers—can be easily managed with the right technology.

Much like the wider business community, many investors are optimistic about the role technology will play in improving the way financial data is used and handled. Yet, this optimism is tempered with an acknowledgment that some emerging technologies are not ready to be utilized fully in a finance setting.

69% Over two thirds (69%) believe artificial intelligence (AI) and machine learning (ML) will lead to better accuracy and transparency in finance and reporting.

76% Investors in the UK (76%) and Germany (72%) are particularly enthusiastic about the potential of these technologies, though less than half (47%) of investors in France agree.

58% More than half (58%) of investors globally also believe AI-driven bots will one day be able to calculate the best investment opportunities.

32% However, some investors are cautious about the maturity of new technologies. Nearly a third (32%) of global investors do not think AI is mature enough yet to be used in finance.

"Unlocking the value of financial data can provide a competitive advantage for businesses. Enhanced data models augmented with new cloud technology, such as BlackLine, can help to turn financial data into real-time, strategic insights that help to boost shareholder confidence."

Tom Toppen, Managing Director, Deloitte & Touche LLP

BlackLine's Take

When it comes to financial data, risk and reporting, the central concerns of investors are resoundingly clear. Investors are unanimous in their appreciation for effective financial management. They care greatly about accuracy, expect their portfolio companies to provide transparency, and are prepared to hold those at the top directly responsible when things go wrong.

Add to this the fact that global accounting standard setters are now turning their attention to inconsistent or unregulated financial information, and the need for more control over how financial data is processed is becoming clear. To stay ahead of the competition, businesses must move toward modern accounting processes that provide up-to-date, accurate financial information in near real-time.

In fact, the majority (92%) of investors agree that real-time visibility over the finances will be crucial if companies want to stay competitive in the next 12-18 months. The fact that this visibility will also help to reduce reputational, regulatory and legal risks only strengthens the case for better controls.

Creating a fundamental business shift such as this can be overwhelming, especially when many finance professionals still rely on spreadsheets and manual processes. Nevertheless, the right technology can make this incredibly simple, modernizing the entire accounting and finance lifecycle.

Notes on Methodologies & Research Criteria

The research was conducted by Censuswide, who surveyed 763 institutional investors in six markets (US, UK, France, Germany, Australia and Singapore) at companies with $100M USD minimum (or equivalent) of assets under management. Sample sizes for respondents were as follows:

US: 204 UK: 150 France: 101 Germany: 101 Australia: 107 Singapore: 100

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